MONTEX APPAREL INDUSTRIES LIMITED

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MONTEX 67

ANNUAL REPORT *for the year ended 31st December 1967*

To The Shareholders

Throughout the year 1967 your management continued its sustained drive towards maintaining a substantial sales volume and towards reducing expenses through consolidation of production and office facilities and elimination of non-profitable product lines.

The Company's land and building at Ajax, Ontario, were sold for $450,000. The Dunnville facilities were closed in the fall of 1967 and operations of the underwear division of Montex were transferred to Hamilton where all our knitting, dyeing and processing is now concentrated. The Carter line of children's wear was discontinued as, contrary to expectations, it did not tie-in with our own range of garments and the Company's distribution facilities.

Despite cut-backs, unavoidable losses due to dislocation and integration, and, most of all, consistently poor market conditions, Montex sales in 1967 were in excess of $17,000,000.

Unfortunately, a persistent shortage of working capital caused a substantial increase in the overall cost of operations mainly through the loss of trade discounts, penalties on overdue accounts and even intermittent work stoppages at some plants.

The amount of $1,119,295 shown as loss for the year includes, apart from high operating costs, some very substantial non-recurring items such as the writing off of expenses deferred in previous years.

Further drastic measures in the interest of efficiency and economy, were taken during the current year. Among major steps was a decision to give up the leased office and warehousing facilities in Rexdale, Ontario. Your Company's headquarters are now located in Hamilton.

Outside of Ontario, your management closed the low-return Sherbrooke operation and terminated the lease of the occupied premises. Two Montreal facilities were also closed and their production output absorbed by the Company's other plants in Quebec Province.

The premises of the two closed plants have been leased to outside tenants.

Consolidation and integration of your Company's productive facilities was accompanied by further tightening of our corporate structure and continued reductions in administrative and personnel expenses.

In spite of these efforts, it became increasingly apparent that the continuing shortage of funds was crippling all Montex operations. In order to protect shareholders' equity and to maintain the existence of the Company as a healthy and productive corporate entity, your directors, after thorough consideration, decided to sell its subsidiaries located in the Province of Quebec. The agreed cash price is $1.2 million of which $700,000 will be paid to bond and note holders. The transaction is subject to shareholder approval.

The subsidiaries to be sold produce women's fashion lines, totally unrelated to the type of merchandise produced by the Ontario-based divisions of Montex. The proposed sale will provide your Company's Ontario operations with much-needed cash and will result in centralization of production and management functions. It is anticipated that improved liquidity, close management supervision and tighter controls, will allow the Company to function efficiently and, as your directors hope, will put your Company's operations back on a profitable basis.

On behalf of the board of directors, I wish to thank our bondholders and shareholders for the generous support they have given to the Company's management during this difficult period in your Company's corporate history. I also want to extend expressions of appreciation to all Montex customers in Canada and abroad for their trust in the quality of our products and for their continued buying interest.

Finally, I wish to pay tribute to our staff at all levels of responsibility for their unfailing loyalty and support.

On behalf of the board,

A. George Brown,
President.

Consolidated Balance Sheet

ASSETS

	1967	Comparative 1966
CURRENT		
Cash	$ 85,426	$ 205,946
Accounts receivable less allowance	2,693,291	2,947,624
Claim for refund of income taxes	41,432	89,779
Inventories of materials, supplies, work in progress and finished goods **(Note 2)**	5,300,878	6,810,688
Property for realization		160,000
Prepaid expenses	92,446	111,580
Total current assets	$ 8,213,473	$10,325,617
NON-CURRENT RECEIVABLES		
Mortgages	$ 17,737	$ 21,984
Special refundable tax	10,261	7,772
	$ 27,998	$ 29,756
FIXED — at cost		
Land	$ 86,089	$ 110,810
Buildings	1,174,598	1,966,200
Machinery and equipment	4,623,409	4,559,384
	$ 5,884,096	$ 6,636,394
Less: Accumulated depreciation	3,447,532	3,550,362
	$ 2,436,564	$ 3,086,032
Leasehold and plant improvements less $64,807 amortized	327,964	344,903
	$ 2,764,528	$ 3,430,935
DEFERRED CHARGES AND OTHER ASSETS (Note 3)		
Loss on disposal of land and building	$ 165,211	
Other	252,109	$ 385,734
	$ 417,320	$ 385,734
EXCESS OF COST OF INVESTMENT IN CERTAIN SUBSIDIARIES OVER BOOK VALUE AT DATES OF ACQUISITION	$ 1,496,377	$ 1,483,377
	$12,919,696	$15,655,419

See notes to financial statements.

as at December 31, 1967

LIABILITIES

		1967	Comparative 1966
CURRENT			
Bank indebtedness — secured		$4,018,662	$4,520,588
Accounts payable and accrued charges		1,877,992	2,074,670
Income and other taxes		220,758	334,472
Dividend payable		16,735	16,746
Loans, mortgages and other indebtedness		1,002	489,530
Long-term debt payments due within one year		242,247	248,280
Total current liabilities		$6,377,396	$7,684,286
LONG-TERM DEBT (Note 4)		$3,128,904	$3,371,493
SHAREHOLDERS' EQUITY			
CAPITAL STOCK (Note 5)			
5½% cumulative redeemable convertible first preference shares of $8 each (redeemable at $8.40)	No. of shares		
Authorized, issued and outstanding	152,133	$1,217,064	$1,217,864
Common shares without par value			
Authorized	1,953,051		
Issued and outstanding	1,092,165	2,616,710	2,615,910
(DEFICIT)		(420,378)	765,866
		$3,413,396	$4,599,640
		$12,919,696	$15,655,419

Approved on behalf of the Board of Directors

A. G. BROWN

N. LIEBERMAN

Notes to Consolidated Financial Statements

1 Consolidation

All subsidiary companies are included and all were wholly owned throughout the year.

2 Inventories

As in the preceding year finished goods inventories were valued at net realizable value less normal profit margin, which for underwear and hosiery is estimated to exceed cost by approximately $100,000. Other inventories are valued at the lower of cost and replacement cost.

3 Deferred charges and other assets

During the year the company sold its land and building at Ajax, Ontario, of which the cost less accumulated depreciation was $615,211 for $450,000 and an option to repurchase at that price five years hence or at any earlier date subject to a bonus. The difference of $165,211 is deferred as the value of the option which the company intends to exercise.

Other deferred charges and other assets are summarized below.

	Charged as expense 1967	Charged as expense 1966	Balance December 31 1967	Balance December 31 1966
Product development and introduction expenses	$ 75,392	$ 11,405		$ 75,392
Deferred engineering and plant opening expenses	26,291	20,799	$ 37,822	61,213
Corporate and financing expenses	11,653	11,654	76,159	87,812
Relocation expenses including loss on building site	116,183	15,237	50,357	120,955
Installation and other costs — leased equipment	2,186		31,372	
Other expense items, deposits and miscellaneous	20,835		56,399	40,362
	$252,540	$ 59,095	$252,109	$385,734

4 Long-term debt

Parent	
6½% first mortgage sinking fund bonds Series A due November 15, 1980 (sinking fund $200,000 annually November 15, 1968-79, redeemable at par for sinking fund and in whole or part at premium after November 15, 1970)	$2,800,000
Notes due $10,000 half yearly to 1971 bearing interest at 6% from June 1, 1967	80,000
5% secured notes due April 30, 1969	365,000
Subsidiaries	
7% first mortgage bond on equipment due February 1970	39,000
6% mortgage due May 1981	87,151
	$3,371,151
Less: Amount due within one year included in current liabilities	242,247
	$3,128,904

The company is in default of a covenant in respect of working capital in the Deed of Trust and Mortgage securing the 6½% first mortgage sinking fund bonds Series A.

5 Capital stock

	Shares	Amount
5½% cumulative redeemable convertible first preference shares of $8 each		
Issued and outstanding, January 1, 1967	152,233	$1,217,864
Converted into common shares	100	800
Issued and outstanding, December 31, 1967	152,133	$1,217,064
Common shares without par value		
Issued and outstanding, January 1, 1967	881,865	$1,985,910
Issued March 28, 1967 as part consideration for shares of subsidiary companies	210,000	630,000
	1,091,865	$2,615,910
Preference shares converted	300	800
Issued and outstanding, December 31, 1967	1,092,165	$2,616,710

for the year ended December 31, 1967

As at December 31, 1967 there were outstanding warrants and options to purchase common shares as follows:

	No. of Shares	Price per share	Expiry date
Warrants	351,975	($2.33⅓	January 15, 1969
		(3.00	January 15, 1974
	108,000	6.66⅔	November 15, 1980
Options	150,000	3.66⅔	October 14, 1969
Employees	13,500	3.66⅔	December 4, 1969

Each preference share is convertible into three common shares at any time at the option of the holder.

The company is obligated by its letters patent, subject to certain provisions, to purchase for cancellation each year 3,750 preference shares to the extent available at prices not exceeding par value.

The trust deed securing the 6½% first mortgage sinking fund bonds contains restrictions as to payment of dividends based on earnings and fixed charges for the preceding year.

6 Depreciation

Having regard to current value and estimated remaining useful life of certain textile plants the amount provided for depreciation of buildings, machinery and equipment for the year is $147,890 less than it would have been at normal rates which has had the effect of reducing the net loss for the year by $147,890.

7 Income taxes

As a result of deducting depreciation and certain costs and expenses for income tax purposes in excess of amounts charged in the accounts, income taxes of approximately $439,500 to date have been deferred and provision has not been made for this amount; however deductions claimed for the year were less than amounts charged in the accounts so that the amount of income taxes deferred was reduced by $79,200 from the preceding year.

Certain subsidiaries have applied prior years' losses to reduce income taxes otherwise payable for the year by approximately $66,900.

8 Contingent liabilities

Suppliers' claims approximately	$30,000

9 Lease commitments

The company and subsidiaries are lessees of premises for terms not exceeding 25 years at annual rentals of $293,250 and also have certain other lease commitments for shorter terms.

10 Remuneration of directors and senior officers

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers of the company amounted to $220,741.

11 Agreement to sell certain subsidiary companies

The company has agreed subject to approval of bondholders and others to sell the shares of its subsidiary companies located in the Province of Quebec, which are manufacturers of women's apparel, and to discharge certain amounts due from those companies for the total amount of $1,200,000 to be received in cash of which $700,000 will be paid to bond and note holders. The company's pro forma consolidated balance sheet as at December 31, 1967 after giving effect to these transactions with actual amounts for comparison is summarized below:

	December 31, 1967	
	Pro Forma	Actual
Current assets	$4,917,506	$8,213,473
Less current liabilities	3,298,192	6,377,396
Working capital	$1,619,314	$1,836,077
Non-current receivables	22,195	27,998
Fixed assets	1,764,005	2,764,528
Deferred charges and other assets	368,243	417,320
Excess of cost of investment in certain subsidiaries over book value at dates of acquisition	46,870	1,496,377
	$3,820,627	$6,542,300
Deduct long term debt	2,325,000	3,128,904
Shareholders' equity	$1,495,627	$3,413,396

Consolidated Statement of Income
for the year ended December 31, 1967

	1967	Comparative 1966
Sales	$17,140,030	$18,211,286
(Loss) before deducting the following	($ 692,522)	$ 196,483
Relocation and product development expenses in excess of regular amortization	$ 104,100	
Interest and amortization — long-term debt	202,149	$ 201,463
Depreciation and amortization **(Note 6)**	121,880	180,994
	$ 428,129	$ 382,457
(Loss) before income taxes	($ 1,120,651)	($ 185,974)
Income taxes (credit) **(Note 7)**	(1,356)	18,110
(Loss) before deducting pre-acquisition income of subsidiaries	($ 1,119,295)	($ 204,084)
Pre-acquisition income of subsidiaries		137,415
Net (loss) for the year	($ 1,119,295)	($ 341,499)

Consolidated Statement of Deficit
for the year ended December 31, 1967

	1967	Comparative 1966
Retained earnings at beginning of year	$ 765,866	$1,174,359
Net (loss) for the year	(1,119,295)	(341,499)
	($ 353,429)	$ 832,860
Dividends on preference shares	66,949	66,994
(Deficit) at end of year	($ 420,378)	$ 765,866

See notes to financial statements.

Consolidated Statement of Source and Application of Funds

for the year ended December 31, 1967

	1967	Comparative 1966
Funds provided		
Proceeds from disposal of land and building at Ajax, Ontario	$ 450,000	
Sale of shares of subsidiary		$ 5,461
Issue of capital stock		8,975
	$450,000	$ 14,436
Funds applied		
Net loss from operations	$1,119,295	$ 341,499
Less: Depreciation and other non-cash items	374,420	209,568
	$ 744,875	$ 131,931
Additions to fixed assets less proceeds of disposal*	70,684	658,030
Reduction of long-term debt	242,589	250,238
Acquisition of subsidiaries		183,903
Relocation expenses including loss on building site	45,585	136,191
Deferred engineering and plant opening expenses	2,900	30,023
Installation and other costs — leased equipment	33,558	
Dividends paid	66,949	66,994
Discount on note	25,500	
Other	22,614	35,969
	$1,255,254	$1,493,279
*Other than disposal of Ajax property appearing under funds provided		
(Decrease) in working capital	($ 805,254)	($1,478,843)
Working capital at beginning of year	2,641,331	4,120,174
Working capital at end of year	$1,836,077	$2,641,331

Auditors' Report

To the Shareholders of

Montex Apparel Industries Limited:

We have examined the consolidated balance sheet of Montex Apparel Industries Limited and its subsidiary companies as at December 31, 1697 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances in respect of those companies of which we are the auditors; we have relied on the reports of other auditors on their examination of the financial statements of certain subsidiaries.

In our opinion subject to the comments on inventory valuation and provision for depreciation as stated in notes 2 and 6 and deferment of the loss on sale of land and building as explained in note 3 these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year and note 11 to the financial statements presents fairly the pro forma financial position after giving effect to the agreed sale of certain subsidiary companies.

Toronto, Canada,
March 29, 1968.

Winspear, Higgins, Stevenson and Doane
Chartered Accountants.

DIRECTORS:	A. G. Brown
	N. Lieberman
	Ralph Blumenstein
	N. Saykaly
	W. A. Corbett
	D. R. Annett
	Archie Basen
	C. A. Duff
	G. F. Garfield
	D. A. McIntosh, Q.C.
OFFICERS:	A. G. Brown, President and Chief Executive Officer
	N. Lieberman, Executive Vice-President
	Ralph Blumenstein, General Manager
	N. Saykaly, Vice-President
	W. A. Corbett, Secretary
	L. Van Buskirk, Assistant Treasurer
TRANSFER AGENTS:	Common: The Royal Trust Company, Toronto and Montreal
	Preference: Canada Permanent Trust Company, Toronto and Montreal
STOCK EXCHANGE:	The Toronto Stock Exchange

MONTEX

Head Office: 88 Ronson Drive, Rexdale, Ontario

Montex

1967 ANNUAL REPORT

CONSOLIDATED FINANCIAL INFORMATION SUMMARY

(Unaudited)

FOR THE 6-MONTH PERIOD ENDED JUNE 30, 1967

Sales	$8,315,473
(Loss) before Income Tax	(198,712)
Income Tax	–
Net (loss) for the period	(198,712)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(Unaudited)

FOR THE 6-MONTH PERIOD ENDED JUNE 30, 1967

Funds provided		
Net (loss)	($198,712)	
Add depreciation and other non-cash items	134,409	($ 64,303)
Other		1,773
		($62,530)
Funds applied		
Additions to fixed assets less proceeds of disposals	$ 31,064	
Reduction of long term debt	22,395	
Deferred charges and other assets	25,581	
Dividends paid	33,490	112,530
Decrease in working capital		$ 175,060
Working capital at beginning of period		2,641,331
Working capital at end of period		$2,466,271

Note:

Due to the acquisition of two subsidiary companies subsequent to June 30, 1966, the consolidated financial information summary and the consolidated statement of source and application of funds for the six month period ended June 30, 1966, would not be comparable and therefore are not provided.

MONTEX

MONTEX APPAREL INDUSTRIES LIMITED

INTERIM REPORT

for the six months ending

JUNE 30, 1967

MONTEX APPAREL INDUSTRIES LIMITED

TO THE SHAREHOLDERS:

Sales, usually low in the first half of the calendar year, were $8,315,473 as compared to $7,380,923 in the same period of 1966. This increase in sales of $934,550 was primarily due to the inclusion of the sales for the Lieberman companies in the 1967 total. The other divisions of the Company maintained their sales at the same level as in 1966.

Export sales of your Company, mainly to the highly competitive U.S. market, have continued to show a healthy growth pattern. With substantial orders in hand, export sales completed and delivered during the first six months of the current year reached $279,000 as compared to $80,000 in 1966.

You will be pleased to learn that the acquisition of the Lieberman companies is proving most beneficial to the Montex group. It has enabled the economic closing down of the Dunnville plant and has brought about a marked increase in the overall efficiency and profitability of all knitting and dyeing operations. The transfer of machinery and equipment from Dunnville to Hamilton is almost complete, and should result in a substantial annual cost reduction.

Consolidating offices, closing down excess and uneconomical productive capacity and re-organizing management are other major steps taken by your directors to increase the company's efficiency. The economies already in effect should result in an additional annual cost saving of some $310,000. The effect of these cost reductions will be partially reflected in the financial statements for the end of the current year. However, the full effect will not be realized until 1968.

The Canadian textile industry in general continued to be adversely affected by the persistent weakness of the domestic market, a condition which tended to accentuate the seasonal decline in sales.

Due to these circumstances, domestic sales of your company fell short of management's reasonable expectations which, in turn, resulted in a net loss of $198,712 for the first six months of the year.

There are, however, grounds for some optimism with regard to the second half of the current year; your company's bookings of domestic orders for the fall are encouraging and the outlook for increased export sales is excellent.

Barring an unforeseen reversal of the anticipated market improvement, your directors expect that a more vigorous than ever sales effort, further cost reductions and increased operating efficiency should result in a gratifying improvement for your company by the end of this year.

On behalf of the board,

G. Brown.

A. GEORGE BROWN,
President.

Toronto, Ontario.

August 21, 1967.